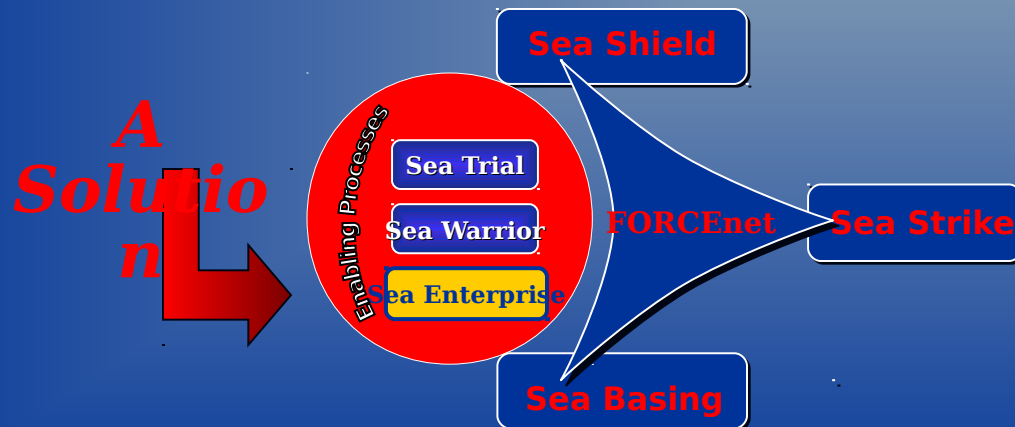


Leading Change in the Department of Navy

The Case for Transformation



SEA ENTERPRISE



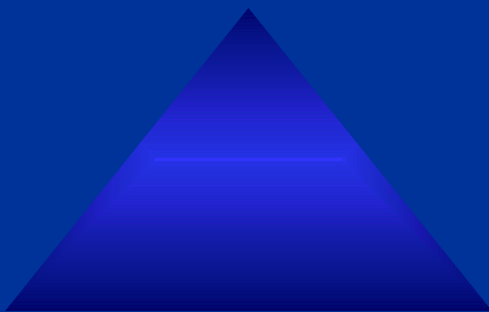
If You Remember Nothing Else

We must drive down our costs!

**Sea Enterprise is focused on
doing just that:**

*Transforming Navy business processes...
driving enterprise-wide
effectiveness/efficiency*

Right Force



Right Readiness Right Cost

1. **Understand your business**
 - In your customer's eyes
 - In terms of value
 - In terms of true cost
2. **Determine optimum delivery mechanism**
 - Divest work better done by others
3. **Improve your processes**
 - Establish meaningful metrics
 - Eliminate waste (lean)
 - Reduce variation (Six Sigma)
4. **Seek innovative solutions**
 - Engage your people for ideas
 - Seek out best practices
5. **Hold leaders accountable**
 - Relentless execution

Accelerate command-specific business

transformation



What is Transformation?

- ❑ Transformation = Deep Change
- ❑ “Deep Change ... requires **new ways of thinking and behaving**. It is change that is **major in scope, discontinuous with the past** and **generally irreversible**.”
- ❑ “Deep change **means surrendering control**.”

Deep Change, Discovering the Leader Within by Robert E. Quinn



External Drivers

Strategic Landscape

QDR defines a new force and force posture

Global War on Terrorism - Globalization backlash

- Global Islamic insurgency, long-term struggle
- Asymmetric warfare fought by decentralized terrorists
- Exploitation of failed and failing states
- Homeland Defense/Homeland Security

Still Out There - the Traditional Threats

- Regional powers with robust conventional and (some) nuclear capability
- Continued instability created by interstate conflicts

It's all for sale

- WMD
- Disruptive systems

Operations other than war

- Tsunami



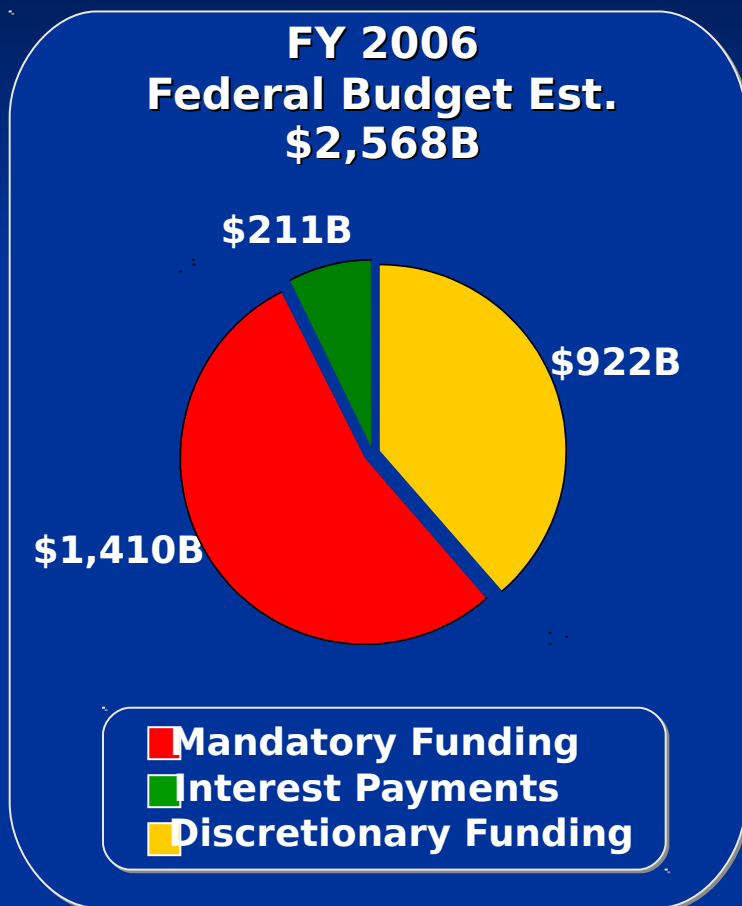
How much defense can the nation afford? How do we

finance QDR?



External Drivers

Federal Budget Issues -- FY 2006



- Debt growing
 - Currently: \$390B
 - Katrina estimated to add ~\$200B
- Mandatory program pressures (projected growth FY03-09):
 - Medicare: 70%
 - Medicaid: 53%
 - Social security: 29%
 - Prescription drugs: \$90B/yr
- Non-DoD department pressures
 - Homeland security: \$34B FY06

***Is this
important?***

*** CBO projects mandatory funding will grow by \$1.4 trillion by 2015**

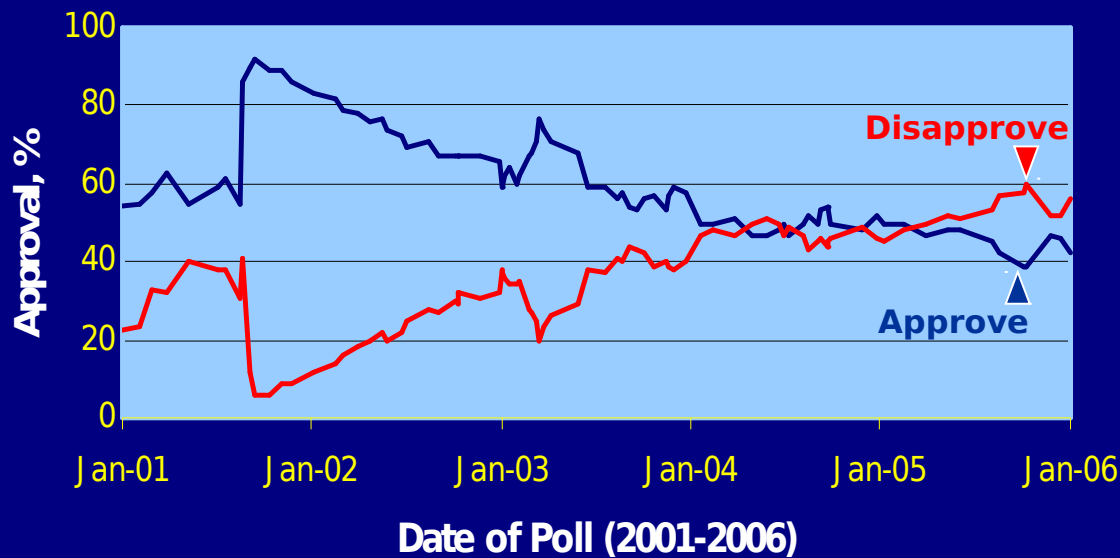


External Drivers

Popular Perception

*What does
this suggest?*

Approval Rating for President Bush



Among two-term presidents

| | Disapprove | Approve |
|-------------|------------|------------|
| REAGAN | 31% | 65% |
| CLINTON | 37% | 59% |
| EISENHOWER | 27 | 58% |
| BUSH | 56% | 42% |
| NIXON | 64% | 26% |

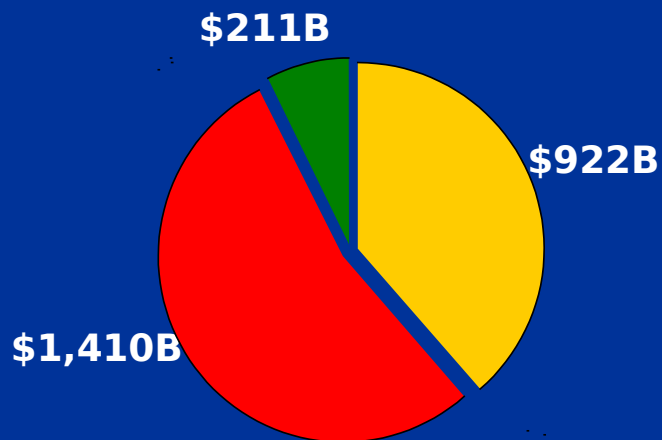


External Drivers

Federal Budget Issues -- FY 2006

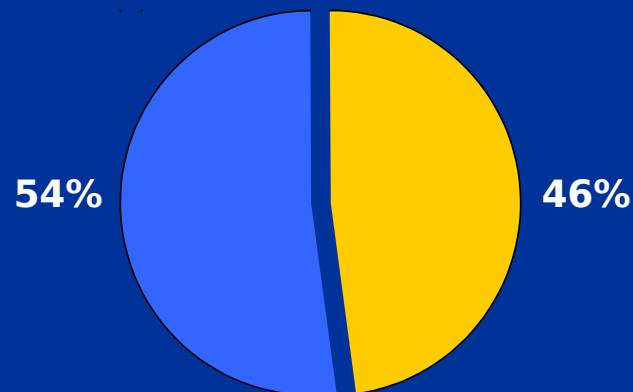
Who's likely to be asked for solutions?

**FY 2006
Federal Budget Est.
\$2,568B**



■ **Mandatory Funding**
■ **Interest Payments**
■ **Discretionary Funding**

**FY 2006
Discretionary Funding
Est.
\$922B**



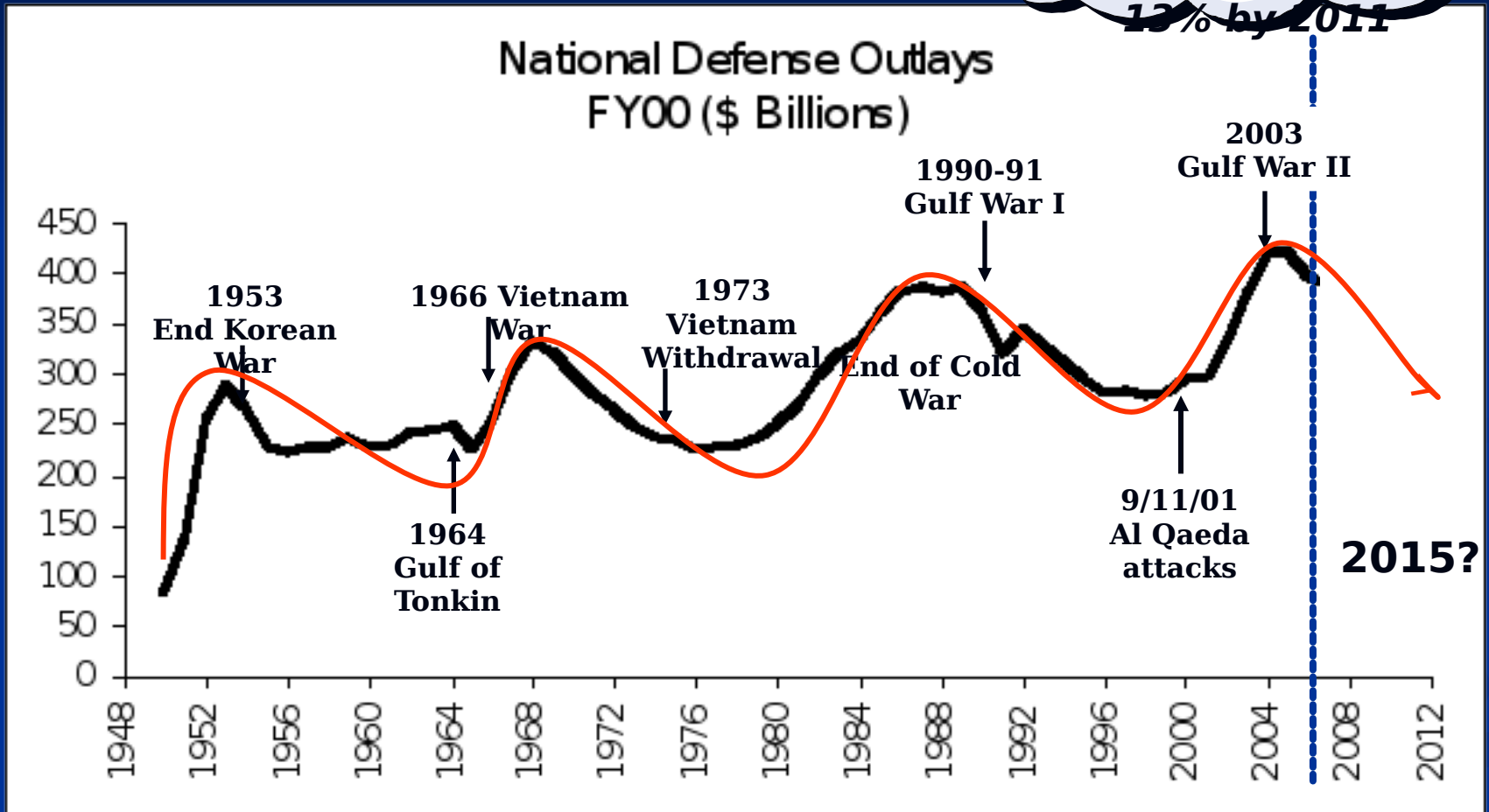
■ **DoD**
■ **Other Gov't Agencies**



Internal Drivers

National Defense Outlays

Outlays increased
30% 00-04,
expected to drop
13% by 2011



Note: Outlays lag budget reductions by about 2-4 years

Source: Library for Integrated Learning and Technology, Illinois State



Internal Drivers

DoD Priorities

**We have our
own
challenges!**

- ❑ Global War on Terrorism
 - ❑ \$172B (FY06-11)
- ❑ Integrated Global Presence and Basing Strategy (IGPBS)
 - ❑ \$12.5B (FY06-11)
- ❑ Base Realignment and Closure
 - ❑ \$11.4B (FY06-09)
- ❑ DoD Storm Recovery
 - ❑ \$12.4B (FY06)
- ❑ Recapitalization

The evidence is surfacing:

| <u>FY06-11</u> | | <u>DOD</u> | <u>DON</u> |
|----------------|----------------|---------------|---------------|
| FY06 | PBD-753 | -\$30B | -\$18B |
| FY07 | PBD-724 | -\$10B | -\$3B |

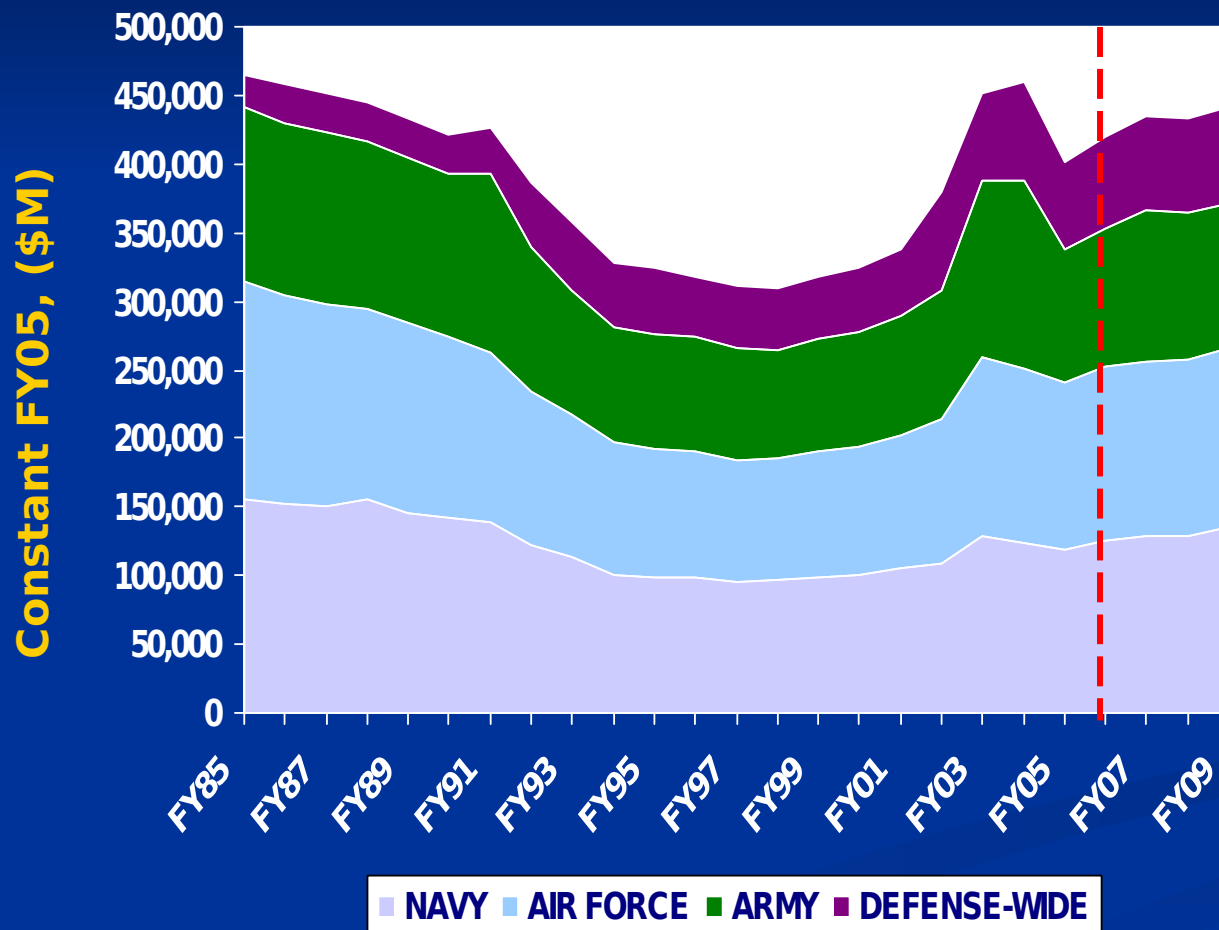


Internal Drivers

The Defense Budget Perspective

Is TOA likely to grow?

Department of Defense TOA (FY06 President's Budget Request)



- Service TOA dropping (95% → 83.9%)
- Navy share
 - Mean: 30.9%
 - Median: 31.1%
 - Std dev: .019

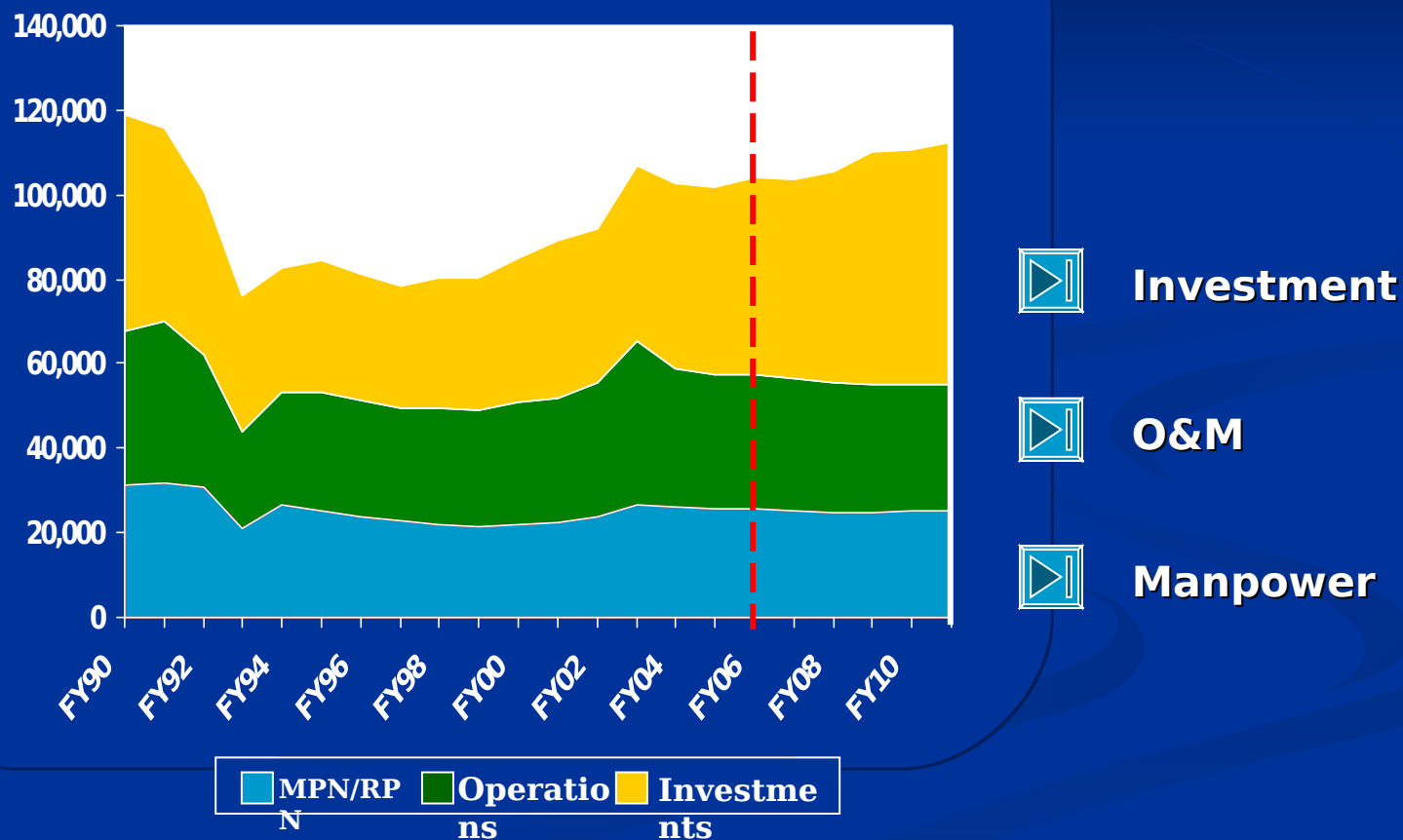


Internal Drivers

The Navy Budget Perspective

Are these
trends
changing?

Navy TOA
(Constant FY05 \$M)





Summary

Program vs Budget ...

- ❑ Federal Budget unlikely to grow
- ❑ DoD Budget expected to be under pressure for additional reductions
 - ❑ Growing entitlement programs
 - ❑ Domestic priorities
- ❑ DoD has significant internal challenges
 - ❑ Growing manpower costs
 - ❑ Aging force structure/infrastructure
 - ❑ Cost of War and Reset cost



... we do have a burning platform!!



What are we Transforming to?

The Navy's Vision ... Sea Power 21

Do you understand
it? Are you
engaged?

Enabling Processes

Sea Trial

Sea Warrior

Sea Enterprise

FORCEnet

Sea Shield

Projecting Defense...
Assured access, sea-based homeland
defense

Sea Strike

Projecting Offense...
Agile, sustainable, precise, persistent

<http://www.chinfo.navy.mil/navpalib/cno>

Sea Basing

Projecting Sovereignty...
Worldwide access, secure, adaptable

Change is a continuous



Sea Enterprise

Enabling Sea Power 21



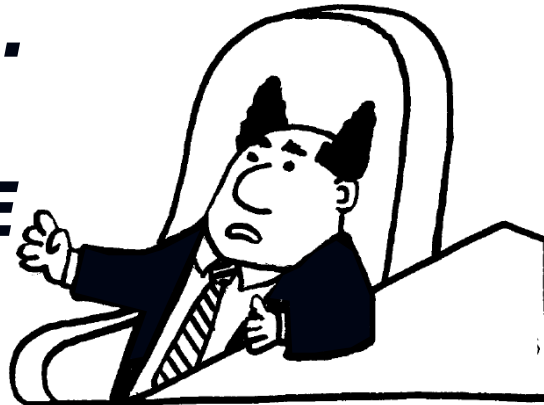
**A different
way of
thinking**

*Addressing the
burning platform*



This is not Sea Enterprise!

**MY PLAN IS TO WORK
YOU UNTIL YOUR
HEALTH DETERIORATES
AND YOUR SKILLS ARE
OBSOLETE.
THEN I'LL
DOWNSIZE
YOU.**



By
Scott Adams



This is not Sea Enterprise!

BEFORE



AFTER



It is not, 'do more with less'...



This is not Sea Enterprise!

BEFORE



AFTER



It is not about reducing services...



This is not Sea Enterprise!

BEFORE



AFTER



**It is not about a less capable
Navy...**



Sea Enterprise is...

“... focusing leadership *[at all levels]* on **outputs and execution**, and **creating ideas** that will **improve our productivity** and reduce our costs. Its key objectives are to:

- ❑ Challenge every assumption
- ❑ Leverage technology
- ❑ Foster creativity and innovation
- ❑ Aggressively divest non-core, under-performing or unnecessary
products, services and production capacity
- ❑ Eliminate redundancies and waste
- ❑ Maximize in-service capital equipment utilization
- ❑ Institutionalize continuous improvement
- ❑ Seek out and implement best practices



Changing Culture/Behavior

#1: Changing Behaviors

- Enterprise orientation
- Focus on productivity
- Leverage ideas/innovation
- Divest non-core capabilities

Tools of the trade

- *Leadership engagement*
- *Understanding/controlling costs*
- *Focused metrics to drive performance*
- *Challenging every assumption*
- *Understanding & balancing risk*

#2: Improving Structures and Processes

- Build on existing initiatives
- Identify better ways of doing business
- Focus metrics...to drive performance

#3: Harvesting Savings

- Execution accountability
- Financial flexibility



What's the Opportunity?

- ❑ **Government:** you can close a budget deficit by raising taxes (revenue) or cutting services
- ❑ **Industry:** You close an earnings deficit by raising revenue, cutting services, or **increasing effectiveness and efficiency of your core processes**

| | Industr y | Gov't |
|---|--------------|-------------|
| Typical HR Admin Ratio | 1:93 | 1:40 |
| Product Dev. Cycle (complex) | 4 years | 10-20 years |
| IT Spend as % Rev (or bud.) | 3% | 6% |
| Average Inventory Turns (ind. Products) | 10 | 3 |
| Time to Hire Employee | 30-60 days | 6-12 months |

A very different perspective



What's the Opportunity

Why not us?

Improvements of 10% to 40% are typical for initial waves, while savings of 3% to 6% per year are common for continuous improvement.



Best Buy

- 138% increase in earnings in 2 years (to \$224M)
- Market cap increase from \$403M to \$11.4B



Dow Chemical

- Productivity increase of 30%
- IT and HR costs reduced by \$70M (15%+ reduction)
- Time to market improved by 10%
- Additional savings of \$250M over five years



HP/Compaq

- \$2.5B operating cost savings (15% reduction)



New York City Dept of Education

- \$1 billion cost savings (10% overall reduction)

| IT | HR | SC | Facilities |
|----|----|----|------------|
| X | X | X | |
| X | X | | |
| X | X | X | |
| X | | X | X |
| X | X | X | |



Sea Enterprise Experience

What we have learned thus far...

- ❑ **Senior leadership must drive transformation**
 - ❑ Set expectations and promote enterprise thinking
 - ❑ Drive enterprise alignment and communicate why
- ❑ **Create a culture of continuous improvement**
 - ❑ Define and measure outputs
 - ❑ Create a climate of innovation
 - ❑ Ensure savings are harvested
- ❑ **Align of structure and processes**
 - ❑ Reduce redundancy
 - ❑ Extend collaboration across enterprise
- ❑ **Embrace best practices**
 - ❑ Leverage both the private sector and government
- ❑ **Develop business acumen at all levels**

***It takes
leadership...
at all levels!***



Sea Enterprise Impact

Some of what we've accomplished...

❑ **Aligned & Streamlined Organizational Structures**

- ❑ Commander, Fleet Forces Command
- ❑ Commander, Navy Installations
- ❑ Assistant Chief of Naval Operations (IT)
- ❑ MPT&E
- ❑ Virtual SYSCOM integration

❑ **Improved Business Processes**

- ❑ Task Force Lean (NAVSEA)
- ❑ AIRSpeed (Naval Aviation Enterprise)
- ❑ SHIPMAIN (Naval Surface Forces)

**\$44.9B in
savings, FY03 to
date**

***How are we
doing?***

Sea Enterprise is a journey ... we have begun!



The Sea Enterprise Impact

Harvesting efficiencies

Building equity

Where savings have gone:

- 1. Increased funding for Sea Power 21 weapons system development***
- 2. Bought more capable ships and aircraft***
- 3. Achieved higher levels of readiness to fight the Global War on Terrorism***
- 4. Provided increased pay and benefits to our workforce***



- NMCI •
- NAVRIP •
- Six Sigma •
- SHIPMAIN •
- AIRspeed •
- Task Force Web •
- Task Force EXCEL •
- Strategic Sourcing •
- Lean manufacturing •
- Theory of constraints •
- DON eBusiness Office •
- Productive ratio review •
- Human Capital Strategy •
- Legacy system rationalization •
- Enterprise Resource Planning (ERP) •
- Performance-Based Logistics •
- Agreements (PBL) •



Anchoring Sea Enterprise

A leader's perspective





Sea Enterprise Leadership in Action

Some fundamentals

- ❑ Who's working for you?
- ❑ What do they do?
- ❑ Who is your customer?
- ❑ What value do you offer to that customer?
- ❑ How do you deliver the value?
- ❑ What are your true costs?
- ❑ How do you measure success (a dashboard)?
- ❑ Where do new ideas get generated and how?
- ❑ How do you learn?

***Start by
learning your
business***

***Start by asking the right
questions!***



Sea Enterprise

Common pitfalls

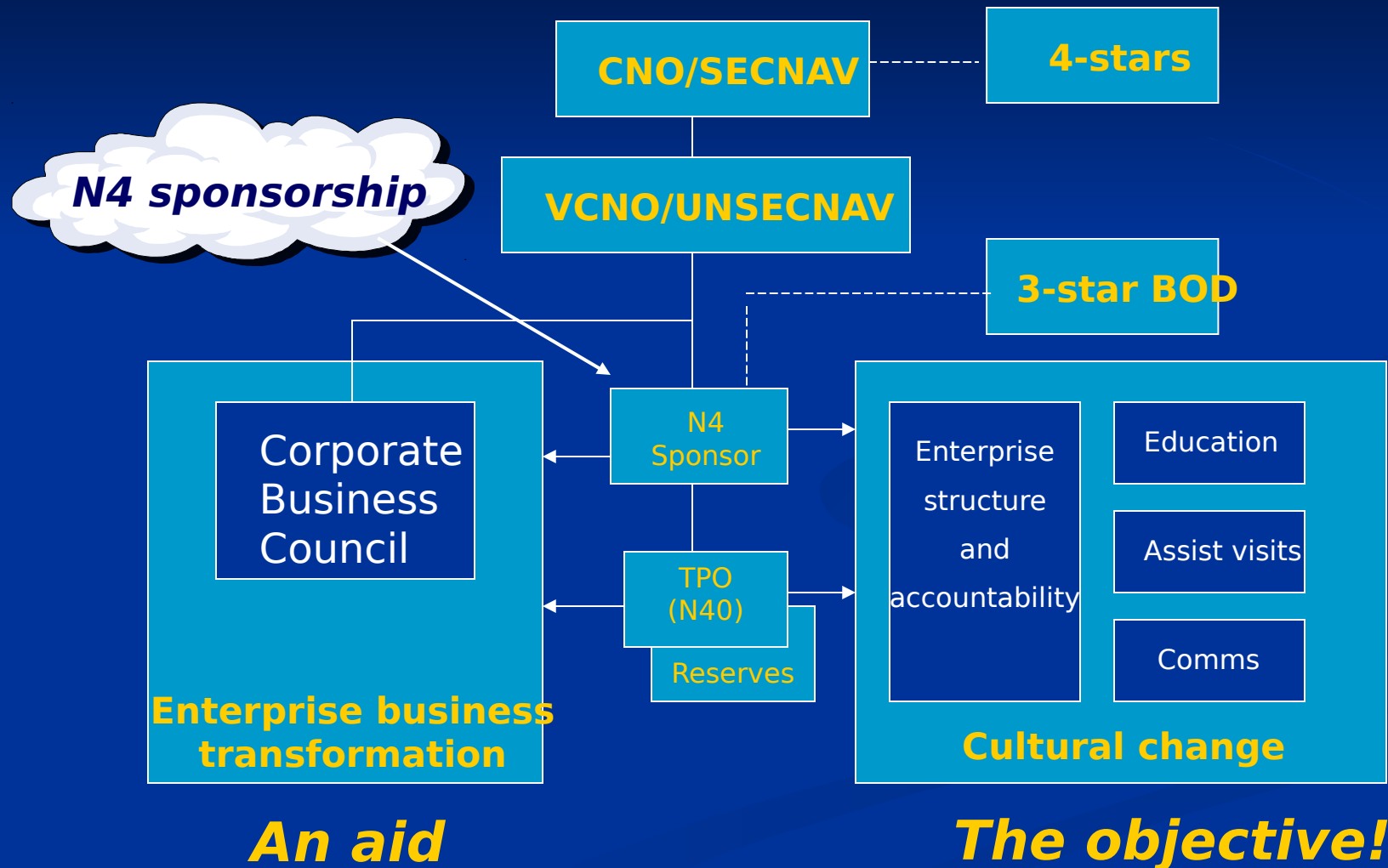
- ❑ **Thinking you know what your customer wants**
- ❑ **Not understanding total cost**
- ❑ **Having inadequate/inappropriate metrics**
 - ❑ Input vice output focused
 - ❑ Quantity outpacing quality
- ❑ **Not understanding the value chain**
 - ❑ Who else drives your cost?
 - ❑ What do you do that results in increased costs to them?
- ❑ **Jumping to efficiency before effectiveness**
- ❑ **Being reluctant to surrender control when appropriate**
- ❑ **Having insufficient accountability for results**
- ❑ **Not achieving organizational penetration**
- ❑ **Being averse to risk**
- ❑ **Not making decisions from an enterprise perspective**

❑ **Failing to consider indirect costs**



The Sea Enterprise Framework

You're not alone!





Changing Culture/Behaviors

Educating our leadership

- EBC
- NCBC
- AMP
- CECOS
- Fleet Business Course
- Senior Enlisted Academy
- SYSCOM Developmental Programs



**Expanding
into the joint
arena**



Changing Culture/Behaviors

Assist visits

- Support echelon II transformation efforts
- Leverage reserve expertise
- Introduce commercial best practices
- <http://usn.bq.navy.mil/SeaEnterprise>
- Coordinated through OPNAV TPO



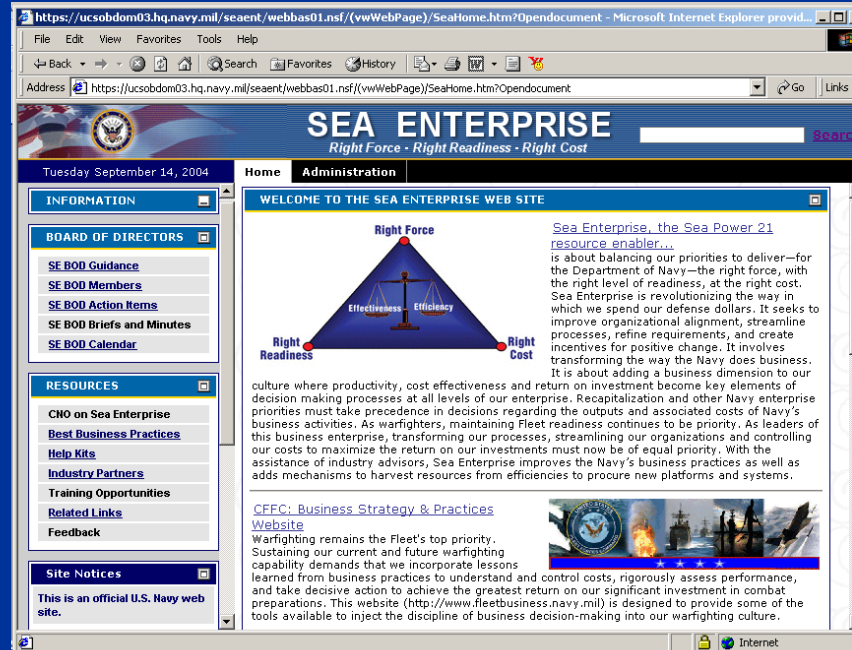
***Accelerating
our progress***

Reserve expertise

- ***Software development***
- ***Lean manufacturing/Six Sigma***
- ***Metrics development***
- ***Business process reengineering***
- ***Supply chain management***
- ***Business plan development***
- ***Change management***



Changing Culture/Behaviors Communications



<http://usn.hq.navy.mil/SeaEnterprise>

“Knowledge is one thing you can share...yet still retain!”



Transformation: An Example

The NAVEUR example

- ❑ Four simple questions:
 - ❑ “What do you do for me?”
 - ❑ “What is your output?”
 - ❑ “To whom do you provide it?”
 - ❑ “Why does it have to be done here?”
- ❑ Watch out for answers like:
 - ❑ “We’re free!”
 - ❑ “We’re unique...”
 - ❑ “We have to be in your time zone.”
- ❑ Then ask the customer:
 - ❑ “What value are you receiving?”
 - ❑ “Would you pay for it?”

• *Do they know you?*
• *Are they on your speed dial?*
• *How frequent is your contact?*

53% Reduction in theater staffing!

Sea Enterprise is a journey...you need to lead!



Transformation: An Example

The JAG Corps example

- ❑ Merging Trial Services Offices, Region and installation legal offices into Region Legal Services Offices
 - ❑ Merges staff judge advocate function with trial counsel function
 - ❑ Enables tailored legal teams to support supported command requirements
 - ❑ Enables common database tracking and task assignment

**17%
Reduction in
staffing!**

***Required CO willingness to surrender
control***

“We did not lose our SJA, we gained a law firm.”



Jacksonville AIRSpeed Initiative

EA-6B rewing production

EA6B WORK-IN-PROCESS **BEFORE**



- TAT = 594 DAYS FY03
- WIP = 16
- Walk distance 45,125 ft.

MANAGEABLE WORK-IN-PROCESS **AFTER**



- TAT = 358 Days FY05
- WIP = 8 in FY05
- Walk distance reduced to 8,670 ft

**RETURNED TWO SQUADRONS OF AIRCRAFT TO THE FLEET
INCREASED ON-TIME DELIVERIES (OTD) FROM 31% TO 83%**



How do you get started?

What you need to know

- ❑ Strategic planning
- ❑ Communicating
- ❑ Fostering innovation
- ❑ Measuring performance
- ❑ Financial analysis
- ❑ Information technology
- ❑ Human Capital strategy
- ❑ Leading Change

Look familiar?





What's your role in Transformation?

Leadership's role

Challenge the assumptions!

- ❑ Leverage this week at EBC
 - ❑ Absorb the foundation principles provided
 - ❑ Engage from a perspective of how you will apply them
- ❑ Take action when you return
 - ❑ Communicate the case for transformation
 - ❑ Immerse yourself in understanding your costs
 - ❑ Ask what people do for you and why
 - ❑ Ask what product/service they provide and what the output measure is
 - ❑ Determine if your costs are aligned to products/services
 - ❑ Consider outsourcing non-core competencies
 - ❑ Concentrate on improving the efficiency of your core competencies (apply techniques from the course)

Sea Enterprise is a journey...you need to lead!



The Bottom Line



- ❑ Dramatic change is needed if we are to achieve the Sea Power 21 vision
- ❑ We are responsible for leading this change
- ❑ Progress is being made
- ❑ EBC is intended to provide you the tools to help lead this change
- ❑ It's now up to you
 - ❑ Take responsibility for learning the skills
 - ❑ Apply what you learn
 - ❑ Hold yourself accountable for achieving results



Why transform?

The typical arguments

- ❑ There's always more money available
- ❑ Congress will "bail us out?"
- ❑ OSD will realize the Navy needs a bigger share of the DOD TOA
- ❑ We ought to stop "wasting" money on non-Navy roles
- ❑ What difference does it make?
 - ❑ They'll just take my money anyway
 - ❑ What I generate is lost to the Navy
 - ❑ There is no incentive to contribute



Are you "on the bus?"



The Bottom Line

- ❑ Dramatic change needed
- ❑ We are responsible for leading this change
- ❑ Progress is being made
- ❑ NCBC intended to provide you the tools
- ❑ It's now up to you
 - ❑ Take responsibility for learning the skills
 - ❑ Apply what you learn
 - ❑ Hold yourself accountable for achieving results

"YOUR actions speak louder than words!"



CNO's Perspective on Change



"I also believe that the **only constant in our future is change** — that **real success** in the world in which we live today and the one our grandchildren will inherit **will come only as a result of hard work** and the **willingness to adapt.**" (From Assumption of Command remarks, 22 July 2005 at U.S. Naval Academy.)